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NATIONAL ASSOCIATION OF LETTER CARRIERS
AFL-CIO

VINCENT R. SOMBROTTO
PRESIDENT

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TESTIMONY OF

PRESIDENT VINCENT R. SOMBROTTO

NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

U. S. HOUSE OF REPRESENTATIVES

ON

SUPPLEMENTAL RETIREMENT SYSTEM

Washington, D.C.

April 23, 1985

CONGRESSIONAL TESTIMONY

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MR. CHAIRMAN, MY NAME IS GEORGE GOULD, LEGISLATIVE AND POLITICAL ASSISTANT TO PRESIDENT VINCENT SOMBROTTO OF THE NATIONAL ASSOCIATION OF LETTER CARRIERS, A LABOR ORGANIZATION OF OVER 266,000 MEMBERS WHO ARE EITHER PRESENTLY EMPLOYED AS CITY DELIVERY CARRIERS BY THE U.S. POSTAL SERVICE OR WHO ARE RETIRED FROM SUCH EMPLOYMENT. PRESIDENT SOMBROTTO COULD NOT APPEAR TODAY DUE TO A LONG TERM COMMITMENT.

THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM IS THE YARDSTICK WHICH WE SHOULD USE AS A MEASURE IN BEGINNING TO DEVELOP THE SUPPLEMENTAL RETIREMENT PLAN FOR NEW HIRES. TO MAKE THE SUPPLEMENTAL PLAN SIGNIFICANTLY WORSE WOULD BE UNFAIR TO NEW HIRES AND DISCOURAGE QUALIFIED PEOPLE FROM SEEKING FEDERAL/POSTAL EMPLOYMENT. TO MAKE IT APPRECIABLY BETTER WITHOUT A SIMILAR CHANGE TO THE PRESENT SYSTEM WOULD BE UNJUST TO CURRENT CAREER EMPLOYEES AND RETIREES. THE SUPPLEMENTAL SHOULD APPROXIMATE THE CURRENT CSRS AS CLOSELY AS POSSIBLE IN BOTH COSTS AND BENEFITS.

THE COMMITTEE HAS RECEIVED MUCH TESTIMONY AND STUDIES COMPARING PRIVATE SECTOR RETIREMENT PLANS VERSUS CSRS. THERE ARE SOME CLEAR DIFFERENCES WHEN COMPARING THE SYSTEMS. OVERALL, HOWEVER, WHEN YOU ASSEMBLE ALL THE PIECES OF AN INTEGRATED PLAN (INCLUDING HEALTH, GROUP LIFE, PENSION AND THE REST), THE PRIVATE SECTOR TOTAL COMPENSATION <u>EXCEEDS</u> THAT OF THE FEDERAL GOVERNMENT BY <u>MORE</u> THAN 7 PERCENT.

IT IS FALLACIOUS AND ABSURD TO CONTEND THAT POSTAL EMPLOYEES HAVE "EXCESSIVE, OVER GENEROUS RETIREMENT PLANS," AS CLAIMED BY FORMER OPM DIRECTOR DONALD DEVINE AND BY J. PETER GRACE, WHO OPERATES UNDER THE FICTITIOUS BANNER OF "CITIZENS AGAINST WASTE."

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ANY SUPPLEMENTAL PLAN DEVELOPED BY CONGRESS SHOULD CONSIST OF SOCIAL SECURITY AND A SUPPLEMENTAL CIVIL SERVICE PLAN. THE SUPPLEMENTAL PORTION SHOULD PROVIDE COMPARABLE DEFINED BENEFITS WITH PRESENT CSRS BENEFIT LEVELS. THE NALC BELIEVES THE NEW PROGRAM SHOULD HAVE CERTAIN BASIC ASSUMPTIONS:

- THE NALC, AT THIS TIME, OPPOSES PRE-1984 HIRES TRANSFERRING INTO THE NEW SYSTEM UNLESS THE SUPPLEMENTAL PLAN IS PART OF THE EXISTING CIVIL SERVICE RETIREMENT SYSTEM AND DOES NOT DRAIN OR SEGREGATE THE FUNDS SO AS TO ISOLATE OLD FROM NEW.
- THE NALC SUPPORTS A FULL COST-OF-LIVING-ADJUSTMENT. BOTH THE GAO AND HAY REPORTS SAY THAT THE COLA IS A PRIMARY REASON THAT OUR COMPENSATION DOESN'T FALL DRASTICALLY BEHIND PRIVATE SECTOR PLANS. WE OPPOSE OPM'S SUGGESTIONS OF A MEANS-TESTED COLA OR ANY OTHER PROPOSAL TO REDUCE THE COLA. THIS INCLUDES THE REAGAN-SENATE REPUBLICAN PLAN FOR A MODIFIED 2% RETIREMENT COLA. ACCORDING TO THE THE ADMINISTRATION'S INFLATION PROJECTIONS, IN THE NEXT 3 YEARS THERE WILL BE 12.6% INFLATION. USING THE CPI MINUS 2% PLAN, RETIREES WOULD RECEIVE ONE-HALF OF THAT ADJUSTMENT. WE MUST REMEMBER THAT MOST RETIREES LIVE ON FIXED INCOMES SO INFLATION IS A SWORD OVER THEIR HEADS. PROPOSALS TO CUT RETIREE COLAS WOULD FORCE MANY RETIREES BELOW THE POVERTY LEVEL.
- MAINTAINING THE STATUS QUO ON AGE 55 RETIREMENT AND HIGH-3 FORMULA COMPUTATION HELPS KEEP EMPLOYEES CONFIDENT OF THEIR RETIREMENT SYSTEM. THESE BENEFITS MAKE THE CIVIL SERVICE ATTRACTIVE TO QUALIFIED PERSONNEL, DESPITE SALARIES WHICH A 1984 HAY ASSOCIATES STUDY ESTIMATED LAG 10% BEHIND THE PRIVATE SECTOR.

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MR. CHAIRMAN, I WOULD NOW LIKE TO ADDRESS THE SPECIFIC ISSUES WHICH YOU RAISED IN YOUR LETTER.

COST

THE NORMAL COST OF THE CURRENT CSRS SYSTEM TO THE GOVERNMENT IS 24.7% OF PAYROLL. TO BE CONSISTENT WITH CURRENT RETIREMENT COSTS, THE NEW SYSTEM SHOULD COST APPROXIMATELY 18.6% OF PAYROLL. THAT FIGURE IS THE RESULT OF SUBTRACTING THE FEDERAL SOCIAL SECURITY CONTRIBUTION (WHICH IS ESTIMATED AT 6.1% OF PAYROLL) THAT IS NOW PAID FOR NEW HIRES, FROM THE 24.7% FIGURE THAT REPRESENTS THE CURRENT, NORMAL RETIREMENT COST OF CSRS TO THE GOVERNMENT.

WE RECOGNIZE THAT IT WILL BE DIFFICULT TO DESIGN A NEW SYSTEM EXACTLY MEETING THOSE SPECIFICATIONS. BUT THE PRINCIPLE OF EQUALITY BETWEEN THE SYSTEMS SHOULD GUIDE OUR DISCUSSIONS.

SOCIAL SECURITY TILT

THE SOCIAL SECURITY "TILT" IS THE FORMULA WHEREBY SOCIAL SECURITY REPLACES A HIGHER PERCENTAGE OF SALARY OF LOWER INCOME PEOPLE SO THAT THEY HAVE AN ADEQUATE BASE ON WHICH TO RETIRE. IT WAS ESTABLISHED BY CONGRESS TO PROTECT LOW-INCOME RETIREES. THE NALC AGREES WITH THIS TILT IN PRINCIPLE AND DOES NOT THINK THAT THE SUPPLEMENTAL SHOULD HAVE A BUILT-IN OFF-SET.

HOWEVER, FOR THOSE PEOPLE WHO FEEL THEY WANT TO OFF-SET THE "TILT", THERE COULD BE AN OPTIONAL VOLUNTARY IRA-TYPE PLAN SIMILAR TO THE 401(K) PLANS WHICH MOST PRIVATE PLANS INCORPORATE. I WANT TO BE ABSOLUTELY CLEAR THAT IT WOULD BE VOLUNTARY AND NOT PART OF THE BASIC ANNUITY. IRA'S GENERALLY ARE AFFORDABLE AND USEFUL TO THOSE FAMILIES WHICH HAVE REAL INCOME LEVELS OF MORE THAN $40,000; MOST LETTER CARRIERS EARN FROM $20,000 TO $30,000.

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EMPLOYEE CONTRIBUTIONS

IN ADDRESSING THE QUESTION OF THE EMPLOYEES' CONTRIBUTION, IT IS IMPORTANT TO REMEMBER THAT MOST PRIVATE SECTOR EMPLOYEES DO NOT CONTRIBUTE TO THEIR PLANS AT ALL. THE PRINCIPLE REASON THEY DON'T CONTRIBUTE IS THAT COMPANIES ARE ALLOWED TO WRITE-OFF THEIR PLANS AS TAX DEDUCTIONS AND THE MONEY IS NOT SUBJECT TO TAXATION AS INDIVIDUAL INCOME. IT IS FAIR TO SAY, THEN, THAT ALL OF US PAY FOR PRIVATE SECTOR RETIREMENT.

CURRENTLY, POST-1983 HIREES CONTRIBUTE 7.Ø5% TO SOCIAL SECURITY AND 1.3% TO CIVIL SERVICE RETIREMENT, A TOTAL OF 8.35%. WE BELIEVE THAT IS ADEQUATE AND IN SYNC WITH THE CURRENT CSRS. NEW EMPLOYEES WOULD HAVE TO CONTRIBUTE 1.3% TO THEIR SUPPLEMENTAL TO MAKE THE CONTRIBUTIONS TO THE TRUST FUND BY BOTH PRE-1984 AND NEW EMPLOYEES ROUGHLY EQUIVALENT.

FUNDING

THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM IS A DEFINED BENEFIT PLAN WHICH IS FUNDED BY CONTRIBUTIONS FROM THE EMPLOYEE AND THE EMPLOYER, AND GUARANTEED BY THE EMPLOYER, IN THIS CASE THE U.S GOVERNMENT. THE NEW SUPPLEMENTAL SHOULD INCORPORATE A SIMILAR PROGRAM OF COMBINED PAYMENTS TO THE TRUST FUND TO INSURE THAT THERE ARE ADEQUATE FUNDS TO MEET NEEDS AS THE SYSTEM EVOLVES.

VESTING

WHILE MOST PRIVATE SECTOR PLANS RESPOND TO ERISA REQUIREMENTS OF A 1Ø YEAR VESTING PERIOD, THE CSRS LEVEL IS FIVE YEARS. THE 1Ø YEAR FIGURE WAS NEEDED TO PROTECT PRIVATE SECTOR EMPLOYEES FROM COMPANIES WHOSE SOLVENCY WAS IN QUESTION. SINCE THE FEDERAL

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GOVERNMENT DOES NOT FACE A SOLVENCY PROBLEM, THE 5 YEAR PERIOD IS ADEQUATE. OPM'S CALL FOR A 1 YEAR VESTING PERIOD AND COMPLETE PORTABILITY WOULD UNBALANCE THE SITUATION BY ENCOURAGING A TRANSIENT, LESS RELIABLE WORKFORCE WITH MUCH LESS ACCOUNTABILITY.

UNIQUE EMPLOYMENT CATEGORIES

THE NALC UNDERSTANDS THAT CERTAIN GROUPS OF EMPLOYEES, SUCH AS LAW ENFORCEMENT OFFICERS, FIRE FIGHTERS, AIR TRAFFIC CONTROLLERS AND THE FOREIGN SERVICE, HAVE CIRCUMSTANCES NECESSITATING SPECIAL RETIREMENT CONSIDERATIONS. WE FULLY SUPPORT PROVIDING THOSE GROUPS WITH RETIREMENT POLICIES CONSISTENT WITH THEIR NEEDS.

IN SUMMARY, WE RECOGNIZE THAT THE SUPPLEMENTAL IS A CRUCIAL AND COMPLEX ISSUE WHICH NEEDS TO BE RESOLVED IN A TIMELY MANNER. I HOPE OUR TESTIMONY HAS BEEN HELPFUL. WE ARE PREPARED TO COOPERATE AND WORK WITH ANYONE ON DEVELOPING A PLAN. INDEED, WE HAVE WORKED CLOSELY WITH YOU, MR. CHAIRMAN, AND WITH CHAIRMAN STEVENS ON THE SENATE SIDE ON THIS ISSUE.

WE HAVE EVEN TRIED WORKING WITH OPM BUT, FRANKLY, UNDER DR. DEVINE, THEY CONSTANTLY TAKE A CONFRONTATIONAL STANCE WHICH POISONS THE WATERS. HE --AND HIS POLITICAL HATCHET HIRES-- PERSIST IN TRAVELLING AROUND THE COUNTRY SPOUTING NEGATIVE STEREOTYPES OF FEDERAL AND POSTAL WORKERS AS BEING OVERPAID, LAZY BUREAUCRATS WHOSE RETIREMENT IS "EXCESSIVE AND OVER GENEROUS."

THE OPM SUPPLEMENTAL PLAN REFLECTS HIS -- AND THIS ADMINISTRATION'S-- MALICIOUS ATTITUDE. DEVINE ACTS LIKE THE WOLF IN A CHICKEN COOP. FOR EXAMPLE, HIS 59 1/2 AGE REQUIREMENT IS A BACKDOOR WAY OF REVISING THE CURRENT 55 & 30 REQUIREMENT.

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ON THE QUESTION OF HOW MUCH THE AVERAGE POSTAL RETIREE WOULD RECEIVE, OPM IS DEATHLY SILENT. THEIR PROPOSAL FOR 1 YEAR VESTING AND COMPLETE PORTABILITY MAY BE A RUSE TO ENHANCE THEIR ABILITY TO RIF PERSONNEL. OPM WANTS PEOPLE TO TRANSFER TO THE NEW SYSTEM WITHOUT GUARANTEEING THE VIABILITY OF THE CURRENT PLAN, WHICH MAY SET UP A SITUATION WHERE THEY "MUST CUT BACK ON BENEFITS TO MAINTAIN THE INTEGRITY OF THE SYSTEM." IN GENERAL, OPM'S INSENSITIVITY IS MATCHED BY ITS POVERTY-LEVEL IDEAS FOR THE SUPPLEMENTAL.

FINALLY, IT SHOULD BE REMEMBERED THAT A GOOD RETIREMENT SYSTEM IS NOT AN EXTRANEOUS COST, BUT THE PRICE CORPORATIONS AND THE GOVERNMENT PAY IN COMPETING TO ATTRACT QUALITY PERSONNEL. THE TOTAL PACKAGE SHOULD NOT LEAVE ELDERLY PEOPLE IN FEAR OF INADEQUATE INCOME NECESSARY FOR HEALTH AND WELFARE.

MR. CHAIRMAN, THE LETTER CARRIERS ARE AN EXCELLENT GROUP OF MEN AND WOMEN WHO DAILY OVERCOME ADVERSITY TO DELIVER THE MAIL. WE LOOK FORWARD TO TO WORKING WITH YOU IN DEVELOPING A FAIR AND EQUITABLE SUPPLEMENTAL RETIREMENT PLAN THIS IS JUST FOR BOTH NEW HIRES AND PRE-1984 EMPLOYEES.

MR. CHAIRMAN, I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU OR MEMBERS OF THE COMMITTEE MAY HAVE.

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